

2001



2002



2003



2004



2005



2005



2005



2006



2007



2006

2008



Kentucky's Progress
2001-2008

From the Desk of Kenneth Slone, State Director of USDA Rural Development in Kentucky:

Welcome to our Annual Report. This report summarizes the USDA Rural Development obligations of \$5,901,018,067 in Kentucky from 2001 through 2008, with emphasis on assistance provided this fiscal year. As you can see, USDA Rural Development has made a considerable impact on rural Kentucky families during the last eight years. As State Director, I am proud of the accomplishments we have made together.



This will be my last Annual Report as the State Director of USDA Rural Development in Kentucky. I would like to thank all of our employees, Congressional Staffs, and our partners for their support and friendship over the past eight years.

I leave Rural Development knowing you will keep the interest of rural Kentuckians first and foremost in all your efforts.

*Thank you,
Ken Slone*

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Community Facilities

Providing essential assistance for health care, public safety, and public services to rural America is performed through our Community Facilities (CF) programs. Kentucky has always been very active in providing assistance to rural communities, including but not limited to hospitals, medical clinics, fire stations, fire trucks, police stations and vehicles, jails, community buildings, courthouses, and day care centers.

This past year Kentucky obligated eleven direct CF loans for a total of \$19,886,750, four guaranteed CF loans for a total of \$18,449,300, and thirty-nine CF grants for a total of \$1,442,676. This assistance comprised a wide range of essential community services benefiting a rural population of approximately 392,066 across the State.

Since FY 2001, rural residents in Kentucky have benefitted by the \$130,728,148 obligated in the CF program. Some projects include:

- The City of Beattyville's new fire truck—in 2008 Rural Development provided \$70,237 in CF grant funds, along with the City's own contribution of \$23,413, to purchase a new 2008 GMC fire truck for adequate fire protection services for the rural population of 7,916 and surrounding areas of Lee County.



- One of the largest CF projects this past Fiscal Year was for the construction of a new hospital in western Kentucky. Rural Development awarded a combination \$30,625,000 direct and guaranteed CF loan to the Caldwell County Hospital in Princeton to build an approximately 61,000 square foot facility to replace an existing obsolete 57-year old building with no potential for expansion. An estimated 13,060 people in Princeton and the surrounding areas of Caldwell County will benefit from the health care services provided by this new hospital.





- In 2008, the Magoffin County Senior Citizens, Inc. received a \$12,487 Economic Impact Initiative grant to use, along with their own contribution of \$4,163, for the purchase of a new 2007 4x4 Jeep Patriot vehicle. The new vehicle is used by the Magoffin County Senior Citizens, Inc. "Meals on Wheels" program to deliver hot, nutritious meals to elderly residents in rural Magoffin County.

- The Menifee County Fiscal Court received a \$29,700 grant and a \$24,300 loan guarantee for the purchases of a Chevrolet Impala Pursuit Vehicle and a salt truck in 2008. The jailer's vehicle will replace an existing vehicle; the salt truck will greatly supplement the county's capacity to perform winter road maintenance.



- July 2008—Over 1,000 people attended the Dedication ceremony for the Fleming County Hospital. This project was financed by a \$21 million loan from USDA Rural Development and \$6,633,000 from the Hospital District.



- The City of Evarts turned to Rural Development in 2008 for assistance in purchasing badly needed police vehicles



to replace the old and aging existing fleet, providing more adequate public safety for the 1,101 citizens in rural Harlan County. Rural Development provided an Economic Impact Initiative grant of \$60,435; the City provided \$20,145.

This past Fiscal Year Kentucky was the recipient of 4 Distance Learning and Telemedicine (DLT) grants, totaling \$810,130. One example of a DLT recipient is the Carter County School District which received a \$438,904 grant to expand educational and career opportunities for students in grades Pre K-12 in eleven rural schools in Carter County. The Carter County Distance Learning Project will allow these schools to become curriculum competitive with other urban schools and communities.



- Beginning in 2002—Saint Joseph Hospital Foundation (SJHF), Inc. was aware of certain health care trends in Kentucky. First, two-thirds of Kentucky Counties (81 of 120) are officially designated as a Health Professional Shortage Area (HPSA). Secondly, Kentucky ranks 7th in the nation for percentage of adults diagnosed with diabetes (Type II Diabetes in Kentucky doubled since 1990). Finally, obesity in Kentucky has doubled since 1990. Based on these trends and given the poverty and isolation of Eastern Kentucky, SJHF, in collaboration with other healthcare organizations, created the Eastern Kentucky Mobile Health Service (EKMHS).

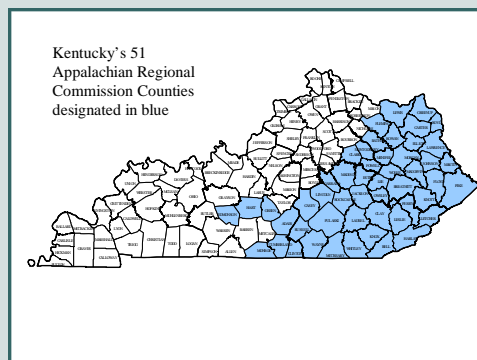


The EKMHS is a mobile unit with a goal of improving access to primary and specialist care for residents of five extremely rural communities located in three counties of Eastern Kentucky (Lawrence, Wolfe and Morgan).

The unit has examination rooms (pictured to the right) equipped with telemedicine facilities that allow the Physicians Assistant and patient access to doctors and specialists in regional hospitals such as those located in Lexington, KY.



The Appalachian Regional Commission (ARC) is a federal-state partnership whose goal is to create an improved quality of life for the people of Appalachia, a 200,000-square-mile region following the spine of the Appalachian Mountains from southern New York to northern Mississippi. The area includes all of West Virginia and parts of 12 other states: Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia. Through an agreement with the Appalachian Regional Commission, Rural Development administers ARC grants processed under the authorities provided in Water and Environmental (WEP) and Housing Program regulations.



During FY 2008, eleven ARC projects were administered under WEP and Housing Program regulations for a total of \$4,538,239. Four of the projects were for essential community facilities in the form of three county health department buildings and renovation of a child development center. The remaining seven projects were for infrastructure such as water and sewer extensions and improvements.

- The Breathitt County Board of Health was awarded a \$500,000 ARC grant to construct a new 19,450 square foot county health department near Jackson, Kentucky. Their current building was a 92-year old, three-story structure with no working elevator, obsolete HVAC, and no working thermostats. In addition, only the first floor was ADA (Americans with Disabilities Act) accessible and the clinic rooms were not sound proof and provided no privacy. The new facility will include a consult/waiting area, two nurses stations, six exam rooms, one triage room, laboratory, community room, and home health/office/storage space. Additional funds for the project include a Kentucky Department of Public Health grant of \$500,000 and local contribution of \$2,055,000. Rural Development will administer the ARC grant even though we have no financial assistance committed toward the project.

President Bush strongly believes that all groups -- faith-based or secular, large or small -- should compete on a level playing field, so long as they obey all legal requirements. One of his first acts



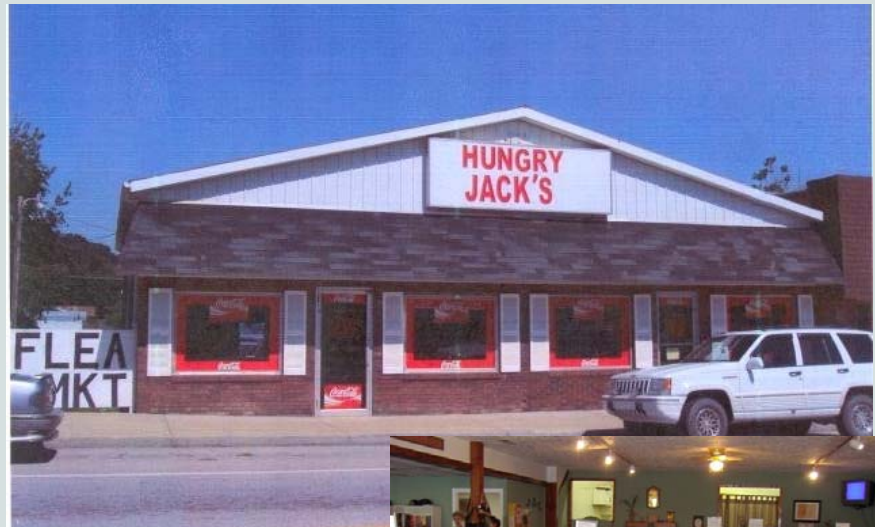
as President was to create the White House Office of Faith-Based and Community Initiatives to lead "a determined attack on need" by strengthening and expanding the role of faith-based and community

organizations in addressing the nation's social problems. Examples of FBCI projects funded in Kentucky:

- In 2006, Green River Ministries, Inc. received the first FBCI loan made in the state of Kentucky. A groundbreaking was held by Green River Ministries, Inc. for the construction of an 8,000 square foot building to be used as offices for social services. Funding for this project was provided through a \$245,000 loan and \$111,610 grant, both from USDA Rural Development.



- Christian Social Services, Inc. received a loan in 2006 to purchase an existing building in Sandy Hook to house the Elliott County Christian Community Center. This building houses a thrift store, food pantry, rental and disaster assistance, eye glass and medication programs, and Christmas and Back to School programs for approximately 6,748 rural Elliott County citizens.



Housing Programs

Single Family Housing borrowers in Kentucky have benefitted from the \$1,515,581,220 invested in rural areas from FY 2001-2008 by USDA Rural Development.

Examples of some of the more recent loans/grants:

- In May of 2008, USDA Rural Development closed a \$250,000 grant for Kentucky Highlands Community Development Corporation (KHCDC) through its Self-Help Housing Program. The grant funds offset administrative costs and will pay construction supervisory personnel to train homeowners to construct 12 homes in Clinton County. Total value for the entire program will be \$1.2 million. Rural Development will provide the largest mortgage for the Self-Help recipients.

- Deana Bell of Albany is a single mom with three teenage daughters. Although she is disabled, she works all she can keeping the home together and keeping the girls in school. She has been renting a small, neat home in a rural area near her family. As they can, Brigit and Brandi Guffey, pictured, will be helping their mother build their home. Deana has always dreamed of building and owning a home. USDA Rural Development and KHCDC, through the Section 523 Self-help Program, are helping her realize this dream.



- Mr. and Mrs. Crum of Tomahawk wanted to repair the old home place that her mother inherited. The house was built over 100 years ago out of chestnut and oak trees growing on the property, with chinking between the logs. The home was difficult to heat and had irreparable termite damage — they didn't know how they could live there. The Crum's contacted a few non-profit organizations for assistance but were not eligible. Finally, they contacted USDA Rural Development, placed an application and were determined eligible for a new home. They were so excited!



Mr. and Mrs. Crum are so thankful to Rural Development. They now live in a safe, hazard-free, energy efficient home! Mrs. Crum says the heating and cooling is the best! She can set the temperature on seventy-four year round!



- The first Self-Help Housing Project made since 2001 was in Providence, Kentucky. Pictured at the right are Rural Development employees, Self-Help Housing participants, Kentucky Rural Initiative Corporation employees, NCALL Research Inc. staff, and neighbors using “sweat equity” to build a new house for Alvin Green. Now that his house is completed, Mr. Green says he is delighted to be in his new home and states he is “warmer than he has ever been” in a house.



Mr. Green says he is delighted to be in his new house and is warmer than he has ever been in a house.

- Sarah Hodge of Lebanon Junction, Kentucky lived in a house with a very old furnace. A furnace repairman told her it was a fire hazard and strongly cautioned her not to use it. Can you imagine being afraid to sleep while your furnace was running for fear it would burn your house down? Living on a small Social Security income and having no savings doesn't leave much room for major costly repairs. She needed a reliable heat source before the cold wintry days were upon her.

Ms. Hodge contacted the USDA Rural Development for help. She qualified for a Section 504 grant and repair loan. Ms. Hodge's new furnace was installed on January 21, 2008. "I am staying warm and I love it!" she proclaimed. "I want to thank God for this program!"



- Sherman and Penny Wright of West Liberty were in great need of repairs to their home but knew they would have problems financing them. The Wright's were determined eligible for a 504 repair loan and were assisted with their grant application through the KHC HouseWork's program. They were approved for a matching grant up to \$10,000 and were able to get siding, overhang repairs, gutters, and an updated bathroom.



Rural Development also approved a grant to install a heat pump for cooling and heating, replacing their existing baseboard heaters and window air conditioner.



- William and Kristin Kidwell of Nicholasville, Kentucky did not know if they could buy a home this year until they met Tammie Guy at Rector Hayden Realtors. She told them they should be able to qualify for a USDA Rural Development loan with a low payment and without having to put down a large down payment.

They applied for the loan at Benchmark Mortgage and were determined eligible.



William said, "What makes it even better is that we only had to bring \$24.00 to the closing table. I did not have to take money out of my savings and now feel like I have a little room in my account in case of an emergency. The taxes and insurance were included in the loan and we had a great fixed payment that was way better then we thought it was going to be. Now Kristen and our two children, Morgan and Alice, have someplace we can really call home."



Kentucky Rural Development employees participated in the Hispanic Housing—Kentucky Bi-National Health Fair, held in Shelbyville during October. The event was attended by over 500 people, including the Guatemalan Consulate. The targeted audience was immigrant communities, both urban and rural, of Mexican/Latin origin, whose residents were either transient or permanent and had limited access to health care. Information was distributed on Rural Development's housing programs, along with coloring books and crayons, pens, pencils, etc.

Over the past eight years, there have been many changes in the Multi-Family Housing (MFH) Program. New programs have been added to enhance the existing ones. Great measures have been taken to preserve the existing portfolio which at present totals 448 properties. There has been an increase in servicing through automation as well as the centralization of payment processing to Centralized Servicing Center (CSC).

With funds being redirected from new construction to rehab/repair of existing portfolio, there has been a greater demand for funds through the Guaranteed RRH Loan Program. During FY 2003, Kentucky made its first Section 538 Guaranteed RRH Loan, in the amount of \$1,000,000 to construct a 40-unit family complex in London, KY. To date, there have been six loans made, for a total of \$6,171,000.



The preservation of existing properties has become vital to the continued success of the MFH Program. With an aging portfolio needing funds for improvements, the MFH Preservation and Revitalization (MPR) Demonstration Program came into play. In 2005, this new program was developed to assist borrowers by offering restructuring tools to assist in keeping affordable rental housing in rural communities throughout the state. Among the tools available are debt deferral and different types of funding, including the traditional 515 loan. To date, totals are as follows. Debt Deferral - \$2,408,589; Traditional 515 Loan - \$807,200; Deferred 515 - \$391,620; and 0% Loan - \$218,520. This program is expected to successfully provide assistance to Kentucky's portfolio for many years to follow.



*Before rehabilitation
shown above;
After rehabilitation
shown to the right.*



Over the past eight years, some of Kentucky's aging portfolio has been able to acquire Tax Credits through Kentucky Housing Corporation. This has allowed for the needed rehabilitation and renovation of the existing portfolio and has proven to be successful in the utilization of 3rd party funds. Through these revitalization measures, borrowers are adding many more years of affordable rental housing to Rural Kentucky.

In 2005, another demonstration program came into existence, this one being the Rural Development Voucher Demonstration Program. It was created to offer protection to eligible multi-family housing tenants in properties financed through Rural Development where the loans have foreclosed or prepaid from October 1, 2005 to present.

Kentucky has assisted 26 tenants thus far with a total voucher obligation of \$36,096. This voucher may be used at the prepaid/foreclosed property or the tenant may take the voucher elsewhere as long as they received Rural Development approval.

Rental Assistance (RA) continues to be a key player in the Multi-Family Housing Program. RA is what allows many very-low income families the opportunity of living in safe and comfortable housing. With RA changes in the past few years, we are able to transfer unused RA and place it in properties where there is an immediate need. As RA Contracts expire, we are providing additional funds through renewal contracts. In 2008 alone, we obligated \$7,677,366 for one-year renewal contracts.

In 2005, with the devastation of Hurricane Katrina making many residents homeless, the Rental Assistance program was a great resource nationwide. In fact, Kentucky housed 27 families throughout the state. With the assistance of FEMA, they were given RA for a six-month period, allowing them time to find a job or to return home. A few of those tenants liked the State so much they have made Kentucky their home.

In December 2006, all of Kentucky's MFH payments and tenant certifications were transferred to CSC. This process has been very successful, thanks to cooperation of staff in the Area Offices, the management agents and the staff at CSC.

The Housing Preservation Grant (HPG) Program has remained consistent throughout the past eight years. An average of three grants per year has been awarded in Kentucky, which in turn reaches about 30 families per year. In most cases, HPG funds are utilized to rehabilitate existing housing; however, in some cases replacement housing has been necessary.

To say the least, the past eight years have been very busy and challenging for the Multi-Family Housing Program staff. With the addition of new initiatives in the program and servicing of the existing portfolio, USDA Rural Development will continue to serve rural Kentucky through providing affordable rental property.



Water and Environmental Programs

During the past eight years, a total of \$431,664,545 has been invested to provide public bodies, non-profit organizations, and special purpose districts with drinking water, sanitary sewer, solid waste and storm drainage facilities in rural Kentucky areas, cities, and towns with populations of 10,000 or less.

Thirty-eight communities and rural areas in Kentucky received assistance through Water and Environmental Programs this past fiscal year improving the quality of life for approximately 193,254 people all across the State. This financial assistance consisted of \$29,212,000 in loan and \$14,013,375 in grant funds and was awarded to fund new, expanding, or improved rural water and wastewater systems. Examples are:

- The North Mercer Water District, located in Salvisa, Kentucky, received a \$3,421,000 loan and \$750,000 grant from Rural Development to fund a two-phased project in rural Mercer County. Their present water distribution system had reached capacity and was no longer able to provide an adequate water supply for 4,337 existing customers, particularly during the hot summer months and periods of drought. This project involved the construction of approximately 22 miles of waterline, the construction of one new and the replacement of two



booster pump stations, and the construction of a 125,000 gallon water storage tank. The Water District will connect to the Cities of Danville and Harrodsburg and the South Anderson Water District to provide an additional source of water.

- Wood Creek Water District has been in existence for over 40 years and is a regional supplier providing treated water to many adjacent utilities. During this 40 year period, it has grown from approximately 600 customers to 4,755 customers.

Funding for this project: USDA Rural Development loan of \$7,975,000 and grant of \$1 million; \$500,000 ARC grant; \$750,000 KIA grant; \$1,199,000 EDA grant; and \$3,605,000 KRWA loan for a total project cost of \$15,029,000.

- The Columbia/Adair County Water Commission hosted a Dedication and Ribbon Cutting for the new \$14,500,000 water treatment plant which replaced the City of Columbia's existing water treatment plant. This project will allow the Adair County Water District and the City of Columbia to provide a sufficient supply of treated water to its existing customers and allow for future growth throughout the distribution system.



- Rural Development has invested \$5,765,860 in the Knott County Water and Sewer District (KCWSD). Prior to this \$11,114,860 project, which began in 2002, Knott County held the record of lowest population served by public water within the state, 14%. With the completion of the regional plant, Knott County citizens and citizens of the surrounding counties will be able to purchase water from the KCWSD and will no longer have to haul their water or rely on contaminated wells for their water supply.

- 2002 was the year for the largest loan made by USDA Rural Development in Kentucky —Logan-Todd Regional Water Commission. Rural Development loaned \$48,200,000 to construct a new regional water distribution and treatment system to benefit a population of 45,608 in Logan, Todd and Christian Counties. In September of 2008, the Logan-Todd Regional Water Commission held their Fifth Year Anniversary celebration.



Business Cooperative Programs

The Business Cooperative Section in Kentucky has obligated \$45,691,057 during the last eight years. Of that, \$14,093,703 was obligated during FY 2008, creating or saving 942 jobs in rural Kentucky.



- In 2007, Kenny Mattingly's operation evolved from purely a tobacco and dairy farm to one in which approximately 40% of his dairy production is further processed into a variety of cheeses. Currently he markets 25 varieties of cheddars, colbys and blue cheeses from his home in Austin. Most of his current sales take place either at farmer's markets or at in-store demonstrations. After being referred to USDA Rural Development by U.S. Congressman Ron Lewis' office, he was approved for a Value Added Grant to conduct a feasibility study for improved marketing techniques, including internet sales, which he hopes will enable him to increase his production to the point that he uses not only 100% of his dairy output but also the dairy output of other local farmers.



- Goose Creek Candles began operations in 1998 as a sole proprietorship. At that time, they focused solely on hand poured scented candles. The company slowly developed a national marketing representative network, which now covers all but 4 states within the continental U.S.



In 2005, the company got its first taste of big business when it acquired a contract with Tractor Supply Company producing hand poured candles for the nationwide retailer. That contract is helping them expand their business and prepare for future growth. Chuck and Tamara Meece turned to two regional non-profit lenders who believed in their vision and financial goals for assistance in expanding their business. The lenders are Southeast Economic Development Corporation (SKED), based in Somerset, and the Mountain Association for Community and Economic Development (MACED), based in Berea. SKED funded this project using money from its Community Development Financial Institution (CDFI), U.S. Department of the Treasury loan fund. MACED is using Intermediary Relending Program funds provided by USDA Rural Development.

Some of this past year's funding was distributed as follows:

- Woodall Farms, a dairy farm located in Logan County, received Kentucky's first Renewable Energy/Energy Efficiency loan and grant. Woodall Farms needed to replace their existing, inefficient box fans with new energy efficient cooling system fans in their confinement barns and milking parlor. The new technology resulted in an annual savings of over 3.8 million kWh of electricity annually. The system not only regulates the air temperature of the facility but improves the overall air quality of the confinement barns. This has resulted in healthier living conditions for the livestock and higher milk production yields.



- Jeff Sheppard, LLC, dba 15inc., an apparel company established in 2002, has its own clothing label specializing in custom screen print and higher quality embroidered apparel, such as polo shirts, golf/wind shirts, caps, and tee shirts. Jeff Sheppard, former University of Kentucky basketball player and founder and principal of the company, operated 15inc. primarily from an office and warehouse in Louisville but decided he would like to relocate the company to London, Kentucky, where he could better concentrate on growing his business. In 2006, Sheppard approached Kentucky Highlands Investment Corporation in London and USDA Rural Development to help him accomplish his objectives.

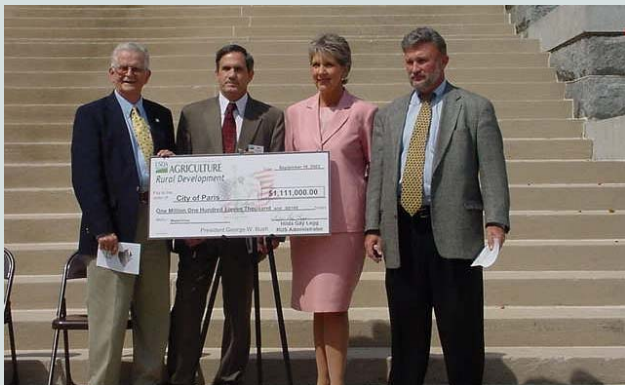


Kentucky Highlands worked with Mr. Sheppard to secure financing for the construction of a 7,000 square foot building in London that now houses 15inc.'s office and warehouse operations. Kentucky Highlands utilized the Rural Development Intermediary Relending Program to provide 15inc.



with a loan that financed half of the building's construction and leveraged the IRP loan to obtain the other half of the building costs from a local lender. In addition, 15inc. was able to further leverage the IRP loan to secure additional financing for equipment and working capital.

Other projects funded over the years:





Mayfield A/O

Madisonville A/O

Bowling Green A/O

Elizabethtown A/O

Columbia A/O

Shelbyville A/O

Lexington A/O

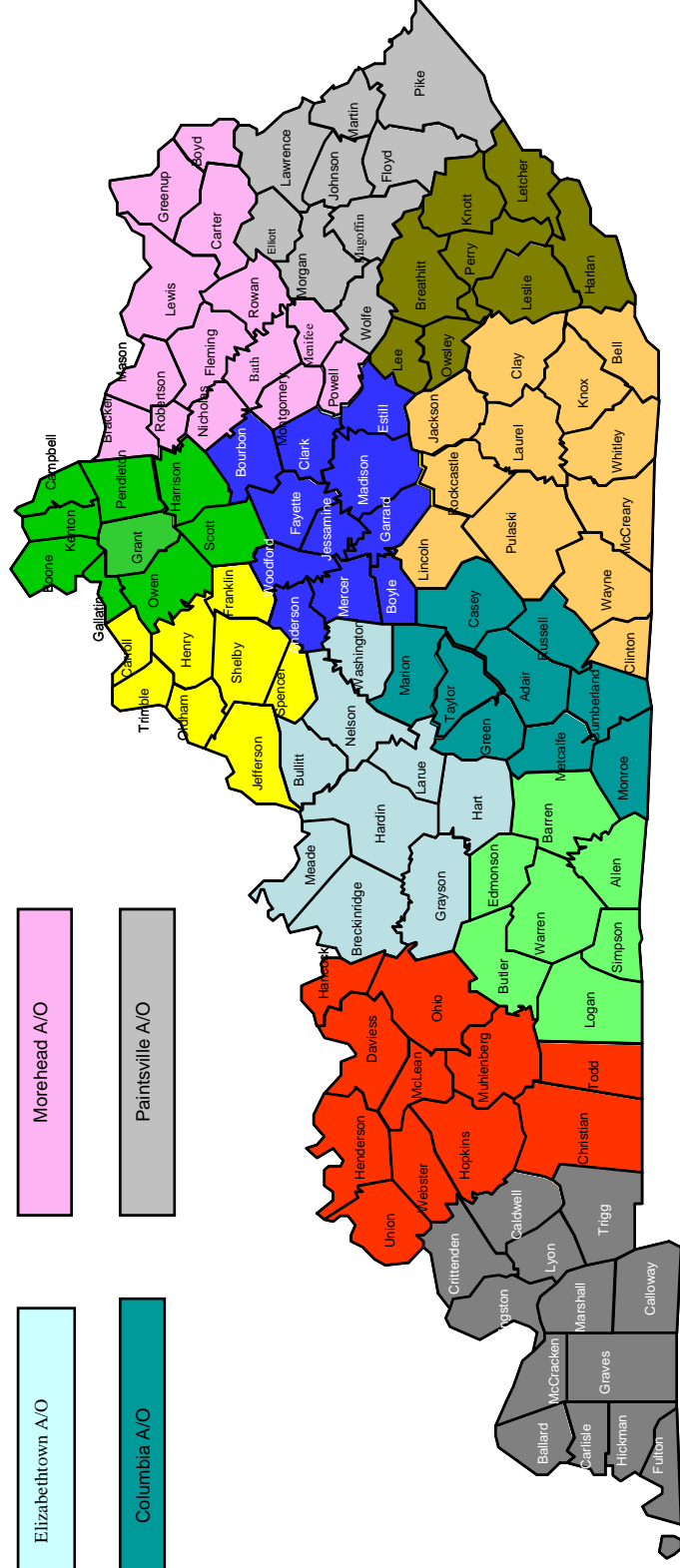
Williamstown A/O

Morehead A/O

Paintsville A/O

London A/O

Hazard A/O



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